Orchestrating a brighter world

NEC

Financial Results for the 1Q for the FY ending March 2021

July 30, 2020
NEC Networks & System
Integration Corporation
(TSE: 1973, NESIC)

1Q FY2021/3 Summary

| Orders received and sales grew and operating income moved into the black.

- Large projects contributed to a high level of total orders (educational market and submarine seismometers).

- COVID-19 had a slightly negative impact on 1Q results.
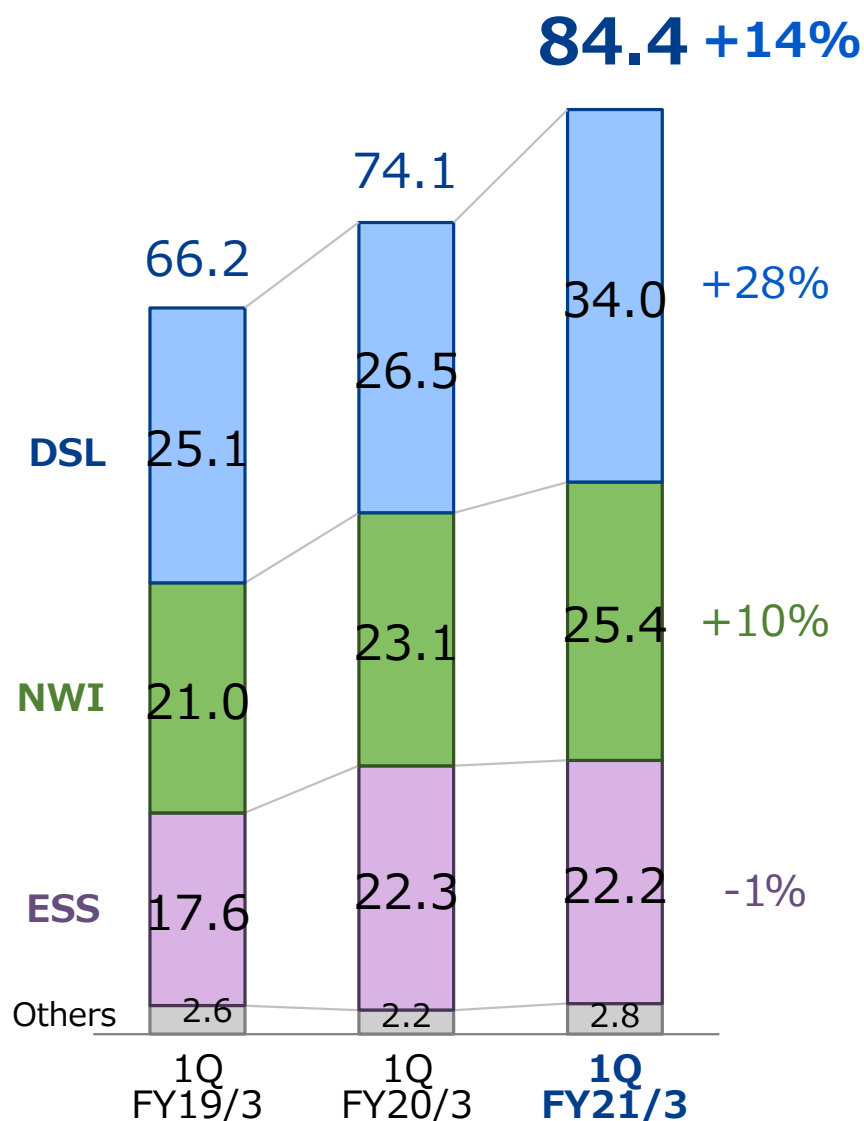 - ・Project delays caused a setback despite growing demand for teleworking.

(¥ Bn.)

	1Q FY20/3	1Q FY21/3	Change
Orders received	74.1	84.4	+14%
Net sles	60.5	67.4	+11%
GP margin	14.4%	15.4%	+1.0pt
Operting income	-0.18	1.01	+1.2
(to sales)	–	(1.5%)	–
Net income attributable to owners of the parent	0.02	0.33	+0.3 *
(to sales)	(0.0%)	(0.5%)	+0.5pt
Free cash flows	15.4	16.5	+1.1

*Including a decrease in extraordinary losses (+1.9) and a reactionary impact of review of the recoverability of deferred tax assets in 1Q FY20/3(-1.6)

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1Q FY2021/3 Orders Received by Segment

(¥ Bn.)

84.4 **+14%**

74.1

66.2

	1Q FY19/3	1Q FY20/3	1Q FY21/3	
DSL	25.1	26.5	34.0	+28%
NWI	21.0	23.1	25.4	+10%
ESS	17.6	22.3	22.2	-1%
Others	2.6	2.2	2.8	

Digital Solutions (DSL)

● Large projects for educational market led the growth.
● Workstyle innovation related business continued to grow.
　・ Growth in demand for introduction of teleworking accelerated.
● Some industries indicated a sense of slowdown.

Network Infra. (NWI)

● Telecom carrier & broadcasting business increased.
　・ Submarine seismometers project and KNSI orders led the growth.

Engineering & Support Services (ESS)

● Orders from local educational institutions compensated for a reactionary fall from the large number of projects for local governments in the previous 1Q.

※Segment information FY19/3 & FY20/3 has been reclassified to reflect the inter-segment business transfer in April 2020.

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1Q FY2021/3 Net Sales by Segment

(¥ Bn.)
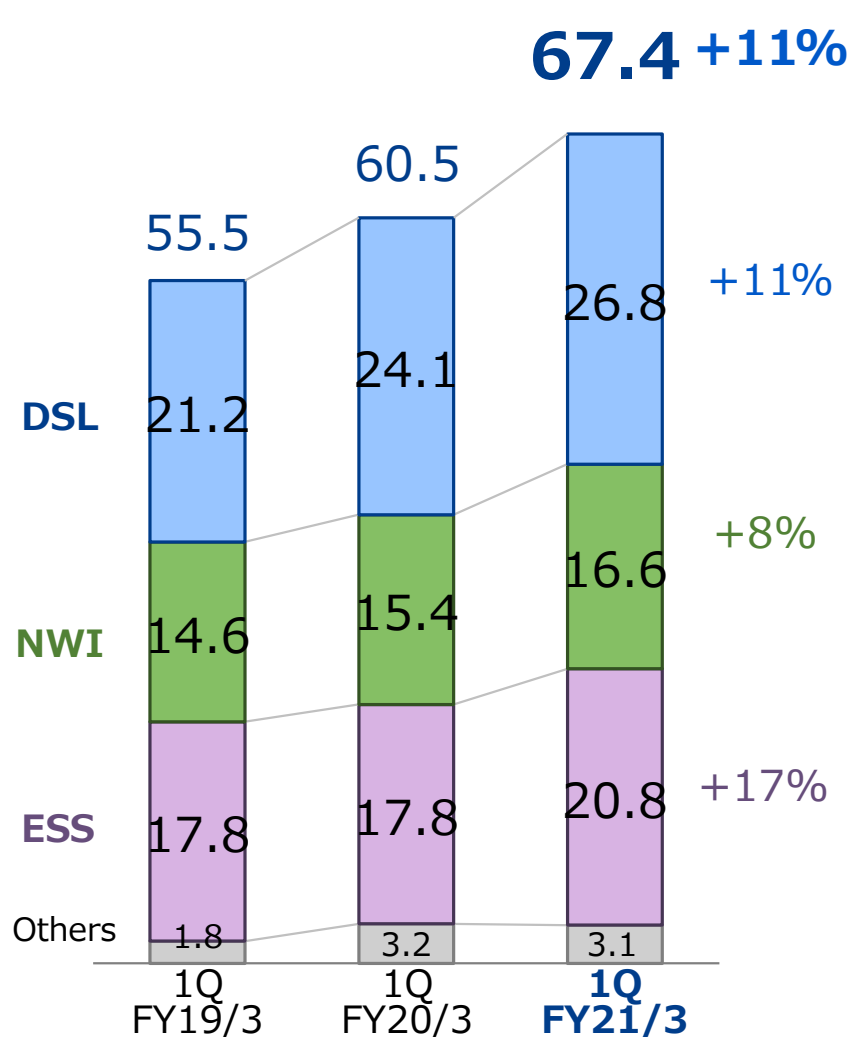
Digital Solutions (DSL)
- Workstyle innovation related business expanded.

Network Infra. (NWI)
- Telecom carrier & broadcasting business increased.
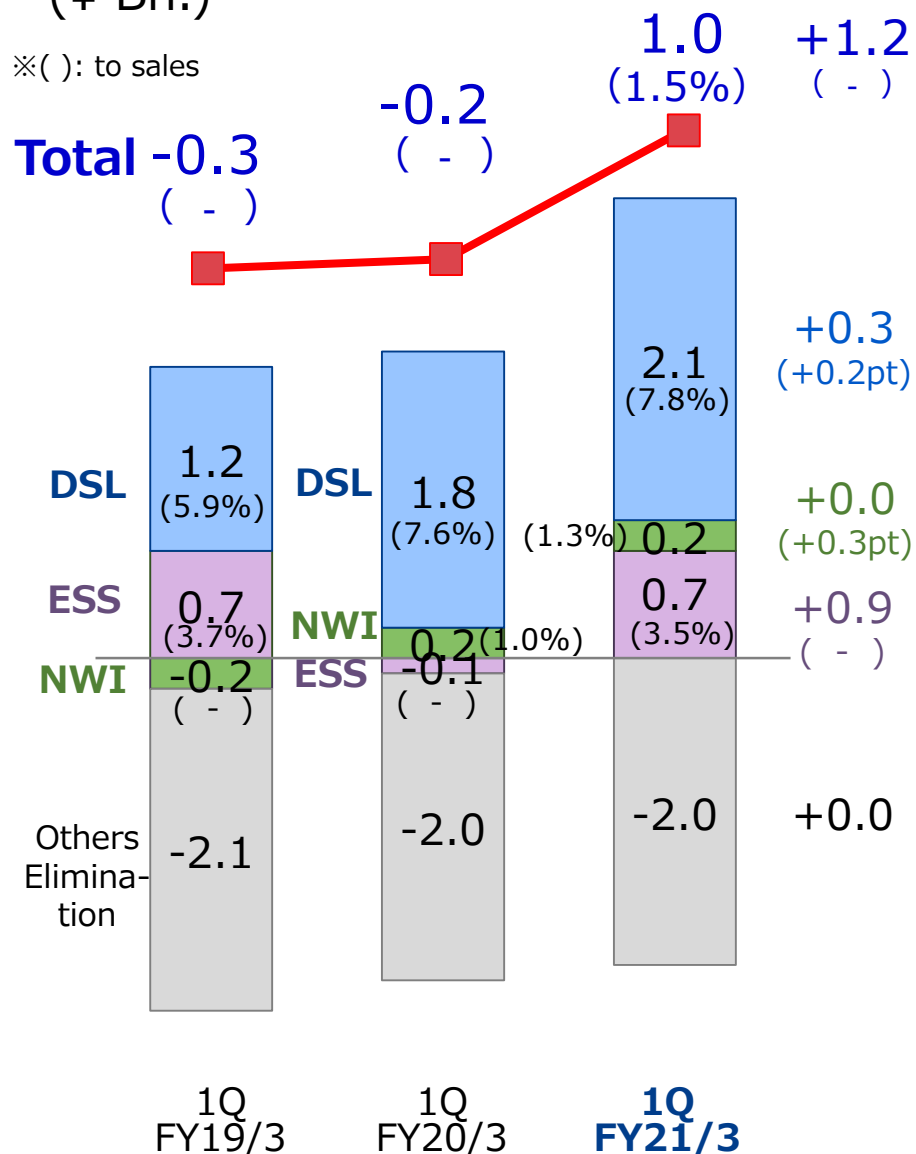 - KNSI sales expanded.

Engineering & Support Services (ESS)
- Domestic construction business (mega solar and regional construction businesses) expanded.

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1Q FY2021/3 Operating Profit & Loss by Segment

(¥ Bn.)

※( ): to sales

(YoY)

Total -0.3
(-)

-0.2
(-)

1.0
(1.5%)

+1.2
(-)

Segment	1Q FY19/3	1Q FY20/3	1Q FY21/3	YoY
DSL	1.2 (5.9%)	1.8 (7.6%)	2.1 (7.8%)	+0.3 (+0.2pt)
NWI	-0.2 (-)	0.2 (1.0%)	0.2 (1.3%)	+0.0 (+0.3pt)
ESS	0.7 (3.7%)	-0.1 (-)	0.7 (3.5%)	+0.9 (-)
Others Elimination	-2.1	-2.0	-2.0	+0.0

1Q FY19/3   1Q FY20/3   **1Q FY21/3**

▌ Operating income moved into the black by raising sales and decreased losses in unprofitable projects despite accelerated investment in growth.

▌ **Digital Solutions (DSL)**

- Profit increased thanks to sales growth.

▌ **Network Infra. (NWI)**

- Reorganization effect was maintained despite an increase in growth expenses.

▌ **Engineering & Support Services (ESS)**

- Profitability improved due to decrease in provision for loss for unprofitable projects

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FY2021/3 Full Year Forecasts

Aim for record high performance by expanding businesses such as the workstyle innovation and education markets and telecom carriers.

- Considering the risk of future surges, the impact of COVID-19 is assumed to be a negative 1 billion yen in and after the 2nd quarter (a negative 1.5 billion yen in full-year profit).

(¥ Bn.)

	FY20/3	FY21/3 Forecasts	Change
Orders received	305.0	310	+2%
Net sales	303.6	312	+3%
Operating income	16.2	18.0	+1.8
(to sales)	(5.4%)	(5.8%)	+0.4pt
Net income attributable to owners of the parent	9.4	10.5	+1.1
(to sales)	(3.1%)	(3.4%)	+0.3pt

*Forecasts as at July 30, 2020

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FY2021/3 Full Year Forecasts by Segment

(¥ Bn.)

*Forecasts as at July 30, 2020

Orders

+2%

305.0 → **310**

	FY20/3		FY21/3e
DSL	115.2	+3%	119
NWI	87.7	+4%	91
ESS	92.0	-3%	89
Others	10.0		11

Sales

+3%

303.6 → **312**

	FY20/3		FY21/3e
DSL	112.8	+2%	115
NWI	83.1	+3%	86
ESS	97.4	+4%	101
Others	10.3		10

Operating income

( ):to sales

16.2 (5.4%) → **+1.8** → **18.0 (5.8%)**

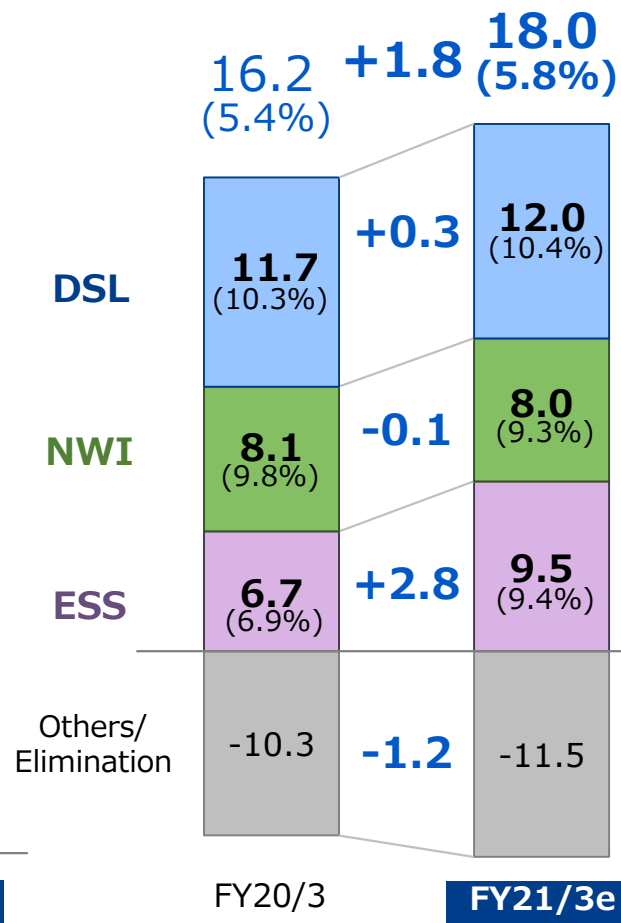|	FY20/3		FY21/3e
DSL	11.7 (10.3%)	+0.3	12.0 (10.4%)
NWI	8.1 (9.8%)	-0.1	8.0 (9.3%)
ESS	6.7 (6.9%)	+2.8	9.5 (9.4%)
Others/Elimination	-10.3	-1.2	-11.5

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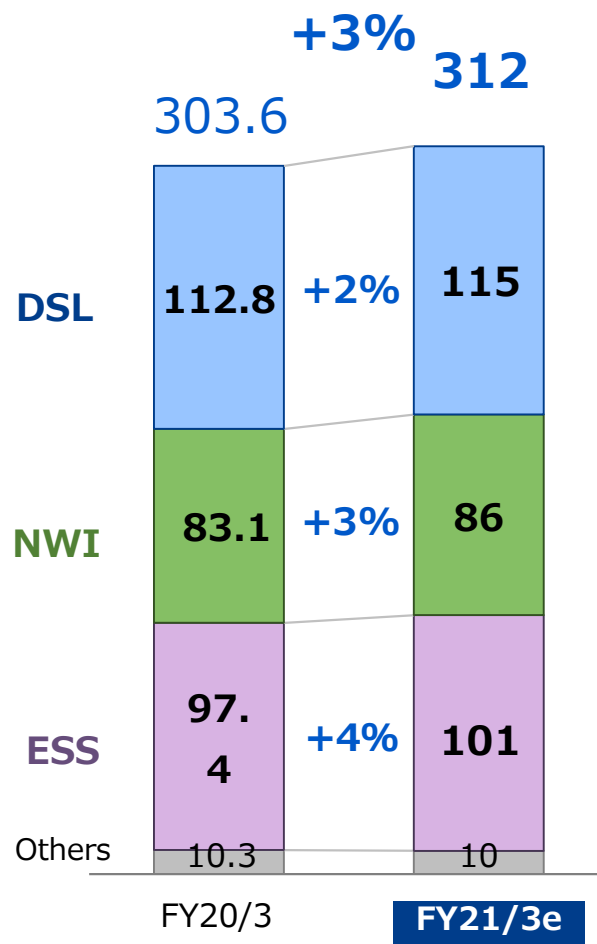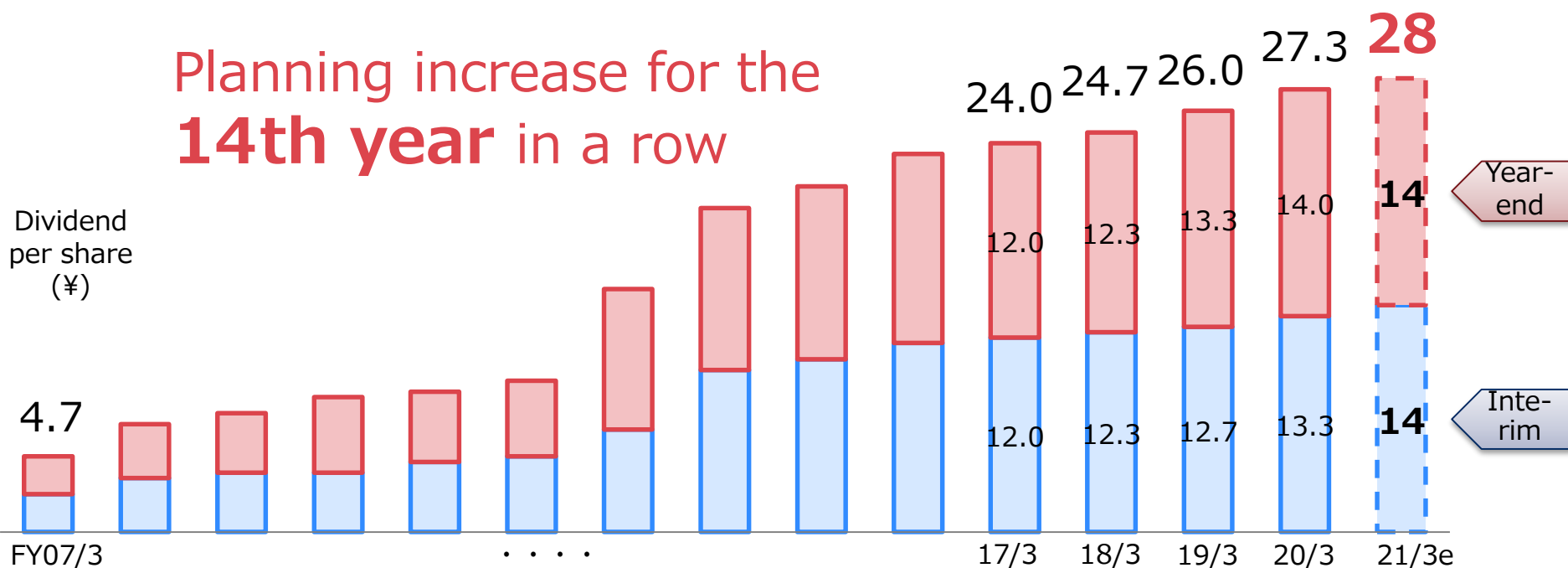
Dividend Plan

Increasing the corporate value through growth investment and continuing to increase shareholder return based on stable dividend at the same time.

- Taking DOE (dividend on equity ratio) into account.
- FY21/3: Planning increased dividend of ¥28 per share

* The results for the fiscal years ended March 2020 and prior thereto presented below reflect the three-for-one stock split conducted on June 1, 2020.

Planning increase for the **14th year** in a row

Dividend per share (¥)

	FY07/3										17/3	18/3	19/3	20/3	21/3e
Total	4.7										24.0	24.7	26.0	27.3	**28**
Year-end											12.0	12.3	13.3	14.0	**14**
Interim											12.0	12.3	12.7	13.3	**14**

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Enforcing **NESIC Normal** toward **New Normal**

Accelerate evolution by "Co-creation & self-implementation" as a pioneer in work-style innovation

Further

By now

Evolving "NESIC Normal"

"Co-creation×
Self-implementation"
"Digital×5G"

Aim of New Normal

Innovation
Well-being
Diversity
BCP
Eco

Distributed work
Co-creative office
(2019～)

Telecommuting
(2015～)

Health and Productivity Management
Innovation
+Against pandemic
Work in local reas (avoiding Tokyo concentration)
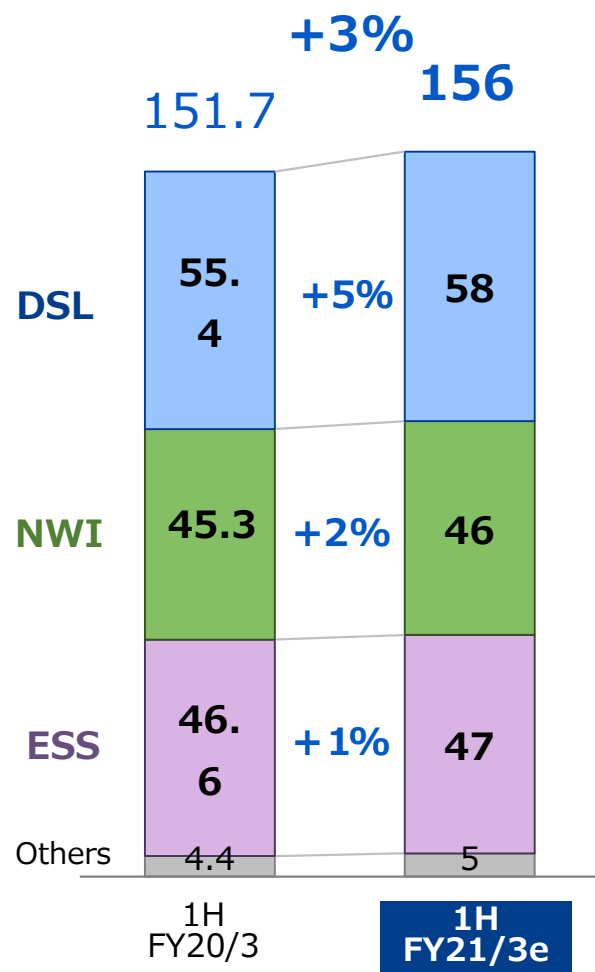
Work-life-balance

Office innovation
(2007～)

Productivity of white-workers

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APPENDIX

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1H FY2021/3 Forecasts by Segment

(¥ Bn.)

*Forecasts as at July 30, 2020

Orders

+3%

151.7 → **156**

Segment	1H FY20/3	Change	1H FY21/3e
DSL	55.4	+5%	58
NWI	45.3	+2%	46
ESS	46.6	+1%	47
Others	4.4		5

Sales

+4%

136.3 → **142**

Segment	1H FY20/3	Change	1H FY21/3e
DSL	53.2	+3%	55
NWI	35.5	+4%	37
ESS	41.6	+8%	45
Others	6.0		5

Operating income

( ):to sales

+0.1

4.4 (3.2%) → **4.5 (3.2%)**

Segment	1H FY20/3	Change	1H FY21/3e
DSL	4.8 (8.9%)	+0.1	4.9 (8.9%)
NWI	1.8 (5.2%)	0.0	1.8 (4.9%)
ESS	2.2 (5.3%)	+0.6	2.8 (6.2%)
Others/Elimination	-4.4	-0.6	-5.0

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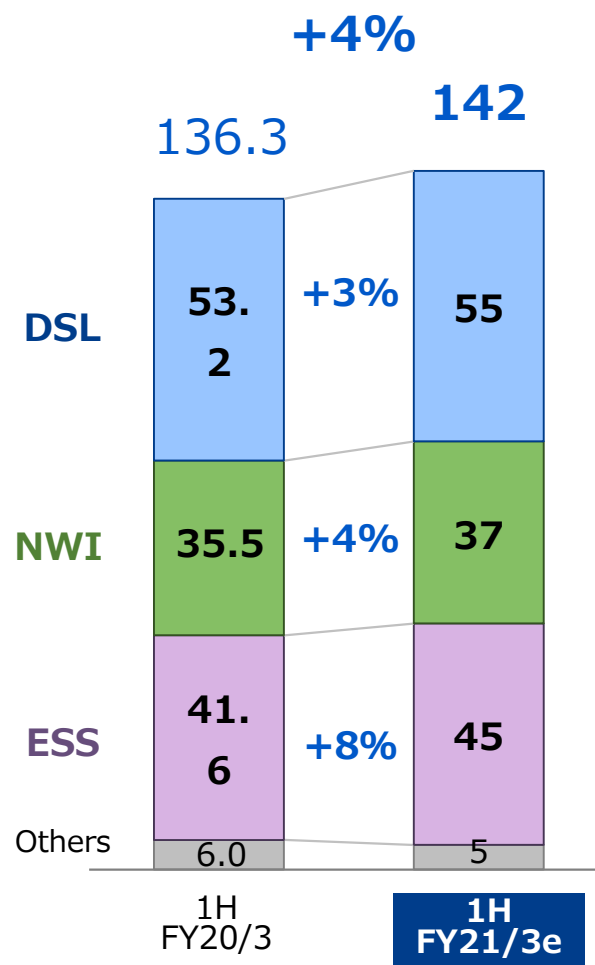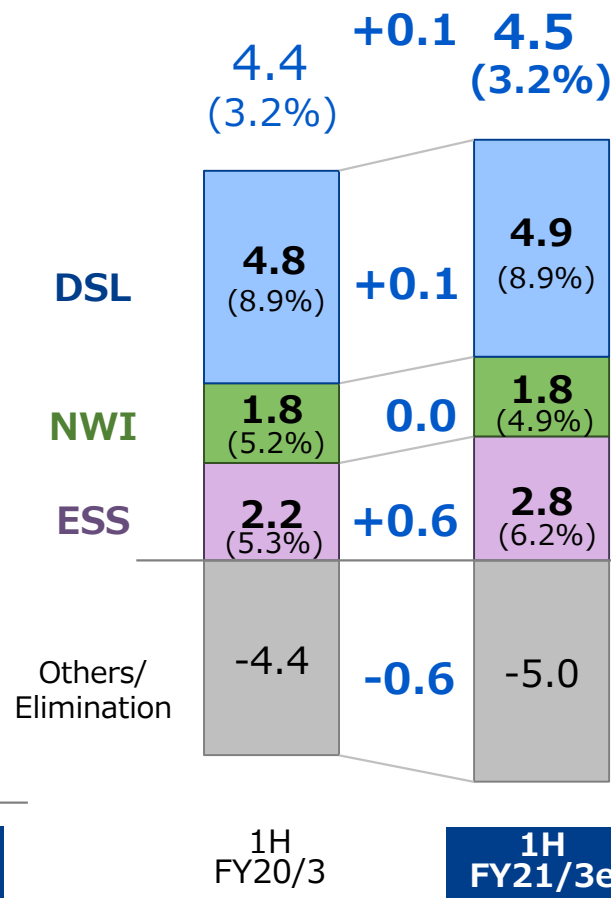
1Q FY2021/3 (June 2020) Balance Seat

(¥ Bn.)

		End of Mar.20	End of Jun.20	Diff.
	Cash and cash equivalents	58.3	72.4	14.0
	Notes & accounts receivable	113.1	82.7	-30.4
	Inventories	13.2	11.9	-1.3
	Others	7.3	7.8	0.5
Current Assets		191.8	174.7	-17.2
Noncurrent Assets		38.4	38.6	0.2
Assets		230.2	213.3	-16.9

		End of Mar.20	End of Jun.20	Diff.
	Notes and accounts payable	43.1	34.4	-8.7
	Loans/debt	8.7	8.5	-0.2
	Others	64.9	59.0	-5.9
Liabilities		116.7	101.9	-14.9
	Shareholders' equity	114.5	112.7	-1.8
	Accumulated other comprehensive income	-4.1	-4.2	-0.1
	Non-controlling interests	3.1	3.0	-0.2
Net Assets		113.5	111.5	-2.1
Liabilities & Net Assets		230.2	213.3	-16.9

Owner's Equity Ratio	47.9%	50.9%	+3.0pt

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1Q FY2021/3 Cash Flows

(¥ Bn.)

	1Q FY20.3	1Q FY21.3	Change
Operating Cash Flow (A)	16.9	17.5	0.6
Investment Cash Flow(B)	-1.5	-1.0	0.5
Free Cash Flows (A)+(B)	15.4	16.5	1.1
Financial Cash Flow	-1.8	-1.9	-0.0
Cash & cash equivalent	67.9	72.4	4.4

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Cautionary Statement

Forecasts and targets of results mentioned in this document are future estimates and are thus inclusive of risks and uncertain factors since they are not based on definite facts. Please be aware that a variety of factors could cause actual results to differ significantly from those projected. The major factors affecting actual results include the economic climate and social trends surrounding the business of this Company's group, consumer trends vis-a-vis systems and services provided by this Company's group, as well as pressure to lower prices and ability to cope with the market in response to intensified competition.

Factors affecting results are not limited to the ones mentioned above.

There were inter-segment transfer of some businesses and other changes in April 2020. Segment information for the FY 2019/3 and FY 2020/3 has been recalculated to reflect the change in the content of business segments. (FY2019/3 figures are un-audited)

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Re-designing your Communication

NEC Networks & System Integration Corporation is committed to increasing customer value by redesigning future communications from the user's perspective.

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